

# MARKET UPDATE

March 31, 2026

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From a 1970 Edwin Starr song called “War”:

“War, huh, yeah  
What is it good for?  
Absolutely nothing, say it again.”

The current U.S. thinking is that if they control oil, the Americans control world power and influence. That’s because China, Europe, India and Japan are among the worlds top importers. In 2025, China imported more than 11 million barrels per day (bpd), followed by Europe (10.5 million bpd), India (4.8 million bpd) and Japan (2.3 million bpd). All four countries / continents are heavily reliant on Middle Eastern oil, with China dominating imports from the Strait of Hormuz.

Unfortunately, the United States hasn’t learned any lessons from two wars in Iraq and one in Afghanistan, the major one being that a quick resolution is rarely in the cards. And if the U.S. believes that Iran will concede anything, it isn’t up

to date on its Iranian history. Iran is not Venezuela.

The Iran–Iraq War began with the Iraqi invasion of Iran in September 1980. After eight years of conflict, the war caused around 500,000 deaths (excluding numbers from the related Anfal campaign), making it the deadliest conventional war ever fought between regular armies of developing countries.

Ultimately, the war did not create any permanent border changes, and neither country received war reparations afterwards. Both sides suffered financially.

Since the U.S.-Israeli-Iranian war began in March, it certainly wasn’t good for investments as almost all financial instruments fell into the red (see equity return table below). Only rising energy prices fared well (Brent crude rose 66% year-to-date to \$101.19 USD per barrel).

As a result, the markets swooned on worries about a global economic slowdown caused by higher inflation.

## Equities

Benchmark returns for 2026 (in native currency; without dividends re-invested) at March 31, 2026				
	JANUARY	FEBRUARY	MARCH	YEAR TO DATE
S&P/TSX Composite Index (Canada)	0.67%	7.57%	-4.91%	3.33%
Nikkei Index (Japan)	5.93%	10.37%	-14.86%	1.44%
Russell 2000 Index (US Small-Cap)	5.31%	0.71%	-5.44%	0.58%
MSCI Emerging Market Index (MXEF)	8.81%	5.41%	-13.73%	0.49%
EuroStoxx 600 Index (Europe)	3.18%	3.74%	-8.45%	-1.53%
S&P 500 Index (United States)	1.37%	-0.87%	-5.13%	-4.63%
MSCI Global Index (World)	2.19%	0.64%	-8.85%	-6.02%
Nasdaq Composite Index (Technology)	0.95%	-3.38%	-4.68%	-7.11%

Data Courtesy of Bloomberg L.P.

When the fear of inflation creeps into an economy (higher energy prices), both stock and bond markets sell off for fear that central banks may have to raise interest rates to ward off inflation.

For stocks, the companies most exposed to inflation are tech stocks and small-cap names.

### WHY TECH STOCKS ARE EXPOSED (GROWTH/LONG-DURATION)

**Discounting Future Cash Flows:** Tech companies are often “growth” stocks, meaning they generate a substantial portion of their earnings in the future rather than the present. When inflation rises, central banks hike interest rates, increasing the “discount rate” used in valuation models. This lowers the present-day value of those future earnings.

**High Valuations:** Many tech stocks trade at high price-to-earnings (P/E) ratios. In an inflationary environment, investors rotate out of high-multiple, risky stocks into safer value stocks or bonds, causing tech valuations to compress rapidly.

### Capital Intensity & R&D

**Costs:** While tech is seen as “innovative,” high-growth tech companies often burn cash and rely on cheap capital to fund research and development. Higher interest rates make borrowing to finance this expansion much more expensive, hurting profitability.

### WHY SMALL-CAP STOCKS ARE EXPOSED

**Higher Borrowing Costs:** Small-cap companies often rely on floating-rate debt rather than long-term, fixed-rate debt. As central banks raise rates, the cost of servicing this debt spikes immediately, putting immense pressure on cash flow.

**Lack of Pricing Power:** Unlike large, established “value” companies, smaller firms frequently lack the market dominance needed to raise prices on consumers without losing them. When input costs (wages, materials) rise due to inflation, small-cap companies often see their profit margins shrink because they cannot pass on all costs to customers.

**Lower Cash Reserves:** Small companies generally have less cash on hand than mega-cap tech companies, making them more vulnerable to sudden, unexpected cost spikes.

Interest rates last rose in 2022 when inflation peaked around 8%. Here’s what the indexes did that year:

**Index performances in 2022**  
(simple performance in their own native currency  
without dividends re-invested)

STOCK INDEX	2022 RETURN
Nasdaq Composite Index (U.S. Technology)	-33%
MSCI Emerging Markets Index	-22%
Russell 2000 Index (U.S. Small-Cap)	-22%
MSCI Global Index (World)	-20%
S&P 500 Index (United States)	-19%
EuroStoxx 600 Index (Europe)	-13%
Nikkei Index (Japan)	-9%
S&P/TSX Composite Index (Canada)	-9%

Data Courtesy of Bloomberg L.P.

In 2022, the reason the S&P/TSX Composite Index didn't fall as much as the other indexes was due to a 24% rise in oil and gas stocks. Prices increased significantly, driven by geopolitical tensions culminating in Russia's invasion of Ukraine in February that year. Brent crude's price breached \$100 per barrel, spiking over \$130 that March.

**TSX Sub-Index returns in 2022**  
(simple price returns)

SUB-INDEX	2022 RETURN
Energy	24%
Consumer Staples	9%
Industrials	0%
Materials	-0%
Communications	-7%
Consumer Discretionary	-8%
Financials	-13%
Utilities	-14%
Real Estate	-24%
InfoTech	-52%
Healthcare	-62%

Data Courtesy of Bloomberg L.P.

The moral of the story is this: When inflation rises, interest rates often go up. If that's the case in 2026, interest-sensitive stocks such as

financials, utilities, telecoms and real estate may falter. Those that usually hold their own are commodity and consumer staples companies.

**Bonds**

Bond yields rose this quarter due to persistent inflation, strong economic data, and increased geopolitical uncertainty, particularly from the Iran war, which raised energy costs and spurred expectations for higher-for-longer central bank interest rates. Additionally, rising term premiums (compensation for holding long-term debt) and increased government bond supply fueled the rise.

Key factors driving higher bond yields this year are:

**PERSISTENT INFLATION FEARS**

Sticky inflation has caused market participants to reconsider the speed and scale of central bank rate cuts, particularly as rising oil and gas prices (stemming from the Middle East conflict) threaten to fuel further inflationary pressures.

**GEOPOLITICAL RISKS AND ENERGY COSTS:**

The war in Iran has increased market volatility and boosted energy prices, creating fears of stagflation—a combination of stagnant growth and high inflation—which typically hurts bond prices and drives up yields.

**HIGHER-FOR-LONGER RATE EXPECTATIONS:**

Following strong economic data and persistent inflation, market participants have shifted from expecting significant rate cuts to pricing in the possibility of higher-for-longer, or in some cases, additional rate hikes from central banks.

**INCREASED TERM PREMIUM:**

Investors are demanding more compensation for locking in long-term debt due to increased uncertainty regarding future inflation and potential risks, pushing up yields on long-term government bonds.

This is why the Canadian Long-Term Bond Index (ZLC) has performed the worst (see table below).

### RISING BOND SUPPLY AND REDUCED DEMAND:

High fiscal deficits have led to an increase in government bond issuance, while demand from some international buyers has been inconsistent. This imbalance between high supply and uncertain demand has forced higher yields to attract investors.

For preferred share investors, the equity-like component has caused prices to drop in line with the weakness in equity markets.

Bond & Preferred Share performances (price change only without interest re-invested) At March 31, 2026				
	JANUARY	FEBRUARY	MARCH	YEAR TO DATE
Canadian Short-Term Bond Index (ZCS)	0.14%	0.36%	-1.35%	-0.85%
Canadian Mid-Term Bond Index (ZCM)	0.64%	0.95%	-2.73%	-1.14%
Canadian Long-Term Bond Index (ZLC)	0.79%	1.70%	-4.14%	-1.65%
Canadian Real Return Bond Index (ZRR)	0.00%	2.87%	-2.65%	0.22%
Cdn. Laddered Preferred Index (ZPR)	-0.41%	1.63%	-0.65%	0.57%

Data Courtesy of Bloomberg L.P.

### Currencies

Since Europe and Japan are major oil importers, the U.S. Dollar improved this quarter relative to the other major currencies because of higher energy prices. Minor currencies, like the Canadian, Australian and New Zealand Dollars, have fallen relative to the major currencies because large institutions selling securities need ample liquidity. The minor currencies can't provide this.

For example, in 2007–2008, investors borrowed low-interest Yen (historically low rates) to buy

higher-yielding Australian dollar bonds. The 2007 subprime mortgage crisis triggered a “flight to safety,” prompting massive deleveraging.

As investors sold Australian Dollars to buy back Yen to repay debt, the Yen spiked, and the Australian Dollar plummeted. This reversal contributed to significant liquidity shortages and intense volatility in global financial markets, mirroring the 1998 Long-Term Capital Management crash.

### WHY INVESTORS SHOULD CONSIDER THE IMPACT OF VOLATILITY IN THEIR PORTFOLIOS

One way to consider risk in a portfolio is to look at the beta of a stock. Beta compares a stock price's volatility relative to the underlying benchmark (which has a beta of 1.00).

For example, some of the more volatile names would be chip manufacturer Nvidia with a beta of 1.81, or a junior mining stock like Aya Gold & Silver, with a beta of 2.74.

This means that for every \$1.00 the index goes up or down, Nvidia moves \$1.81 and Aya fluctuates by \$2.74 - the higher the beta, the higher the risk. Or, if the stock market drops 10%, Nvidia will

move 18% lower and Aya will plummet 27%.

While it's great to see a portfolio rise 30% in a year, investors must remember that a 30% drop in a stock requires a 43% rise just to get back to breakeven. Investing is not about how much you make on the upside but how much you avoid losing on the downside. Sidestepping the big loss keeps you in the investment game over the long run.

To avoid potential losses, investors must re-balance their high beta stocks whenever they become a sizable percentage weight in the portfolio.

The last three years in the stock market have been all about momentum trading, not a great time for value investors.

### MOMENTUM TRADES OFTEN WANE AFTER 2-3 YEARS

Think of sardines forming a bait ball in the ocean. It becomes so large that all the predators arrive to gorge on them. When the bait ball is gone, the predators move on. This is similar to equity trading since 2023.

Stock performance came from concentrated bets where investors chased themes. Usually, however, after 2-3 years, momentum trades tend to fade as investors move on to the next great idea.

In 2023, the Magnificent 7 stocks were the hot sector as they were the talk of every investor's conversation. Artificial intelligence came into the investment lexicon that year and these ideas translated into the Magnificent 7's higher share prices.

By 2025, the Mag 7's performances began to ease as both the law of diminishing returns and the reversion to the mean took hold. During the first quarter this year, the Mag 7 stocks underperformed the indexes and, because they represent close to 30% of the S&P 500 Index and the Nasdaq Composite Index, it's easy to understand why those indices are 2026's laggards.

In 2024 and 2025, chip manufacturers came into vogue as demand for AI chips outstripped supply and prices skyrocketed. This helped the chipmakers but hurt the Mag 7 stocks (the buyers of the chips) because of the huge outlay of funds to pay for those chips.

Also, the price of gold began to move higher in response to a weakening U.S. dollar and as India and China began to hoard the precious metal. This caused gold's price to jump and impacted hugely the S&P/TSX Composite Index because 30% of the index was tied to resource stocks.

In 2026, higher oil prices kept the S&P/TSX Composite Index ahead of most of its global rivals as the energy sector now accounts for 30% of the index.

However, when the markets correct, these overweight, concentrated positions fall faster than most. Another way to think about it is if the S&P/TSX Composite Index is up 30% in one year and the historical 10 and 20-year returns are 9% and 5% respectively for that index, chances are the performance numbers should return to the mean in due course and it could drop just as fast (or faster) than it rose.

### Annual price performance of Magnificent 7 stocks since December 31, 2021 (In USD - dividends not re-invested)

COMPANY	TICKER	YTD 2026	2025	2024	2023	2022	ANNUAL AVERAGE RETURN
Nvidia Corp.	NVDA	-6%	39%	169%	240%	-50%	52%
Google Inc.	GOOGL	-8%	65%	35%	59%	-39%	18%
Meta Inc.	META	-13%	13%	65%	195%	-64%	13%
Apple Inc.	AAPL	-7%	9%	30%	48%	-27%	9%
Amazon Inc.	AMZN	-10%	5%	44%	81%	-50%	5%
Tesla Inc.	TSLA	-17%	11%	62%	102%	-65%	1%
Microsoft Corp.	MSFT	-23%	15%	12%	57%	-29%	2%

Data Courtesy of Bloomberg L.P.

## LONG-TERM EQUITY PERFORMANCE RETURNS DON'T USUALLY EXCEED 15%

Over a 10–20-year period, stock price performances don't often exceed 15%. That's because it's difficult for a company to exercise continued strength and pricing power against the backdrop of changing economies.

Liberty's efforts to earn above-average long-term returns focus on Returns on Invested Capital (ROIC), a lower Weighted Average Cost of Capital (WACC), a high percentage of cash conversion (the percentage of net profit converted into free cash flow), high operating margins, a low debt-to-cash flow ratio and above-average pricing power.

Warren Buffett considers Return on Invested Capital (ROIC) a cornerstone of investing, defining a great business as one that sustains high returns on capital over extended periods. He favors companies with high ROIC, enduring moats, and low capital requirements for growth, allowing for excess cash generation.

Here are some key insights on ROIC from Buffett:

- **The “Dream Business”:** Buffett prefers companies that can invest substantial amounts of incremental capital at high rates of return, acting as a “compounding machine”.

- **Best vs. Worst:** The ideal business requires little capital to grow, while the worst businesses consistently require heavy investment for low returns.
- **Long-Term Destiny:** Buffett has stated that if a stock is held for decades, the return the company earns on retained capital is far more important than the price-to-earnings (P/E) ratio.
- **Focus on Capital Efficiency:** He believes the best businesses have high margins and low capital needs to finance growth, which allows them to produce free cash flow.

Buffett emphasizes that simply growing earnings is not enough; growth only benefits investors if it is achieved by creating more than a dollar of market value for every dollar of capital invested.

If an investor can earn 10% to 15% annual returns over 10 and 20 years, they'll easily outperform index funds. And this doesn't include dividend income that can be re-invested each year to buy more shares (the compounding effect).

Here are the historical price returns for stock market indexes around the world.

Historical Index performances (simple performance in native currency without dividends re-invested)					
INDEX	YTD	1-YEAR	5-YEAR	10-YEAR	20-YEAR
Nasdaq Composite Index (U.S. Technology)	-7%	25%	10%	16%	12%
S&P 500 Index (United States)	-5%	16%	10%	12%	8%
Russell 2000 Index (U.S. Small-Cap)	1%	24%	2%	8%	6%
MSCI Global Index (World)	-6%	15%	8%	10%	6%
S&P/TSX Composite Index (Canada)	3%	32%	12%	9%	6%
Nikkei Index (Japan)	1%	43%	12%	12%	6%
EuroStoxx 600 Index (Europe)	-2%	9%	6%	6%	5%
MSCI Emerging Markets Index	0%	28%	1%	5%	1%

Data Courtesy of Bloomberg L.P.

Intuitively, if the indexes aren't making 10% to 15% long-term returns, it means there are a lot of companies in the index that aren't performing well. In other words, owning an index fund will leave you with good, bad and ugly companies where overconcentration can really hurt investors when the markets fall.

This is why Liberty stays focused on finding the Buffett-like companies within the portfolio and then managing the risks effectively to avoid the bigger losses. Anything can happen in the short term, but investors need to stay invested and always keep their attention on the 10 and 20-year periods. Chasing short-term returns rarely makes investors a lot of money in the long run.

### DEALING WITH SECTOR CHANGES

Sometimes, changes in the world can upset investments that have worked for lengthy periods of time. In the 1990s, Moore Corp. was a successful stationery firm that made carbon copy forms. Its business deteriorated after the advent of the computer and printers.

Last year, software firms began to see business threatened by Artificial Intelligence, which resulted in their share prices cratering as the 40% historical margins faced pressure.

The same could be said for consumer product companies in their fight against changing diets, GLP-1 weight-loss drugs and a desire by consumers to avoid ultra-processed foods. The recent struggles of a company like KraftHeinz (down 26% since the beginning of 2025) illustrate consumers' changing tastes.

Healthcare stocks were also hurt by changes in U.S. policy to cut Medicaid and Medicare spending, federal funding cuts to hospitals and U.S. universities, tariffs and policy changes at the FDA.

As a result, we exited these businesses last August / September and we're glad we did as those stocks have fallen further. Since then, Dassault Systemes (down 34%), Roper Technologies (down 32%), Verisk Analytics (down 30%), Enghouse Systems (down 26%), Thomson Reuters (down 49%), Constellation Software (down 46%) are names that have been caught in the AI downdraft.

Replacements for those names are more in line with current trends and have performed well such as Comfort Systems, Cameco, Franco-Nevada and Bird Construction.

For investors, it's important to note that Buffett's "Buy and hold forever" slogan doesn't always apply as circumstances change or industries or economies evolve.

Finally, stocks we owned for a long time were, naturally, subject to capital gains taxes for taxable accounts. Some friends were upset they had capital gains to pay. My response is that they have two options:

1. Crystallize the gain, pay the tax and preserve capital. Money was made on the investment, which is better than a loss.
2. Pay no tax and watch the value of your holdings drop another 25%.

### *In summary:*

- If inflation becomes persistent, especially if the Iran War goes longer than anticipated, central banks may need to raise interest rates. When rates rise, stocks and bonds tend to fall.
- Momentum trades can last 2-3 years but usually fade in time. For those types of "hot" stocks, it's prudent to re-balance those holdings before selling accelerates.

→ Diversification doesn't work during times of momentum trading and concentrated bets, but it does work when markets drop. The most important thing for investors is not how much they make on the upside but how much they avoid losing on the downside. A 30% loss in value in one year means it may take 5 years to make back your money. Do you have that kind of time?

→ Expected long-term stock returns should be in the 10-15 per cent range if the companies have the following characteristics – a return on invested capital greater than 15%, operating margins greater than 15%, a cash conversion rate greater than 85%, a debt-to-cash flow ratio of less than two times, an ROIC greater than a company's WACC and pricing power. If companies don't have these characteristics, chances are their long-term returns will be lower, more in line with index fund performances.

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If you have any questions, let us know.

**David Driscoll CIM**  
President & CEO

**Brett Girard CPA, CA, CFA**  
Portfolio Manager & CFO

**Annie Bertrand CIM**  
Portfolio Manager

**Rory Burke CFA**  
Associate Portfolio Manager

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